

# WHY WRITE A BUSINESS PLAN

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There are many reasons why a business plan should be prepared. Regardless of the specific reason, the underlying goal of preparing a business plan is to ensure the success of the business. Here are the main reasons why a business plan should be prepared:

1. It provides you with the road map that you need in order to run your business. It allows you to make detours, change directions and alter the pace that you set in starting or running the business.
2. It assists in financing. Whether you are starting up a small business or are an established entrepreneur, banks and other financial institutions want to see that you know where you are, where you are going and how you are going to get there.
3. The plan will tell you how much money you need, when you will need it and how you are going to get it; in other words, how you will do your financing.
4. It helps you clearly think through what type of business you are starting and allows you to consider every aspect of that business.
5. It raises the questions that you need to have answered in order to succeed in your business.
6. It establishes a system of checks and balances for your business so that you avoid mistakes.
7. It sets up benchmarks to keep your business under control.
8. It helps you develop the competitive spirit to make you keenly prepared and ready to operate.
9. It makes you think through the entire business process so that you do not open the business blindly or lack vital information in opening and maintaining your business.
10. It forces you to analyze competition.
11. It will give you a “GO” or a “NO GO” answer about starting the business.

## **PREPARING A PLAN STEP BY STEP**

A business plan consists of certain basic elements which are outlined in this section. These elements include:

- The products or services offered by the business.
- A description of the company's industry, including competition.
- A marketing plan which outlines how your target market will be reached.
- A production plan or how your products or services will be produced or obtained.
- How the company will be or is organized.
- A financial plan which describes not only the sources of money to finance the business, but also projected financial statements.
- Information on key personnel.

In preparing the plan, you must first review the outline and determine what information you need to gather. As this information is gathered, it is then sorted into each of the sections contained in the outline. Certain questions will arise and will have to be answered. Obtaining the answers to these questions will require a certain amount of planning. To do this planning, you can make use of a Planning Worksheet.

## **PLANNING WORKSHEET**

A planning worksheet simply sets forth a goal and lists the objectives required to reach that goal. For example, a person going into a new sporting goods store may have as a goal, 'TO SELL 50 TENNIS RACKETS DURING THE GRAND OPENING'. In order to do this, certain "actions" or "tasks" will be required. These could include one or more of the following:

1. Prepare the grand opening advertisement.
2. Arrange with a tennis racket supplier to participate in the promotion.
3. Set an attractive grand opening sale price.
4. Have a sufficient inventory of rackets.
5. Train store personnel on the selling features of the line of tennis rackets.

Each of these actions will need to be accomplished by a certain date. One person within the firm must be assigned the responsibility to see to it that it is accomplished. With the assignment of that responsibility, that same person must be given the authority to get the job done. Finally, a priority must be assigned to each of the required "actions" or "tasks".

To ensure proper planning, it is suggested that you use a simple form which lists each of the necessary "actions" together with their priority, due date, the person responsible and the result. A sample of this form is found on the following page.

## PLANNING WORKSHEET

PRIORITY	ACTION (TASKS)	DATE DUE	PERSON RESPONSIBLE	RESULTS

# **BUSINESS PLAN OUTLINE**

## *I. EXECUTIVE SUMMARY OF THE PLAN*

1. Description of the business
  - a. Overall purpose of the business
  - b. Specific purpose of the business
2. Marketing Strategy
3. Production Process
4. Management Team
5. Objectives of the Team
6. Financial Considerations.
  - a. Profit and loss projections
  - b. Balance sheet projections

## *II. PRODUCTS AND SERVICES*

1. Initial Products and Services
2. Proprietary Features
  - a. Patents
  - b. Copyrights
  - c. Unique or different features
3. Future Products and Services
  - a. New products and services
  - b. Research and development

## *III. INDUSTRY*

1. What is the industry definition?
  - a. Background of the industry
  - b. Trade associations
  - c. Publications
  - d. Industry trends
  - e. Number and kinds of firms in the industry

2. Market Definition
  - a. Who is the customer
  - b. Market size
  - c. Market growth
3. Competition
  - a. Who is the competition
  - b. Strength and weaknesses
4. Major Influences on the Business and Industry
  - a. Government
  - b. Business cycle
  - c. Foreign
  - d. Natural resources

#### *IV. MARKETING PLAN*

1. Marketing Overview
2. Marketing Objectives
3. Strategy: Advertising, Promotion and Public Relations
4. How Will Sales Be Made

#### *V. THE PRODUCTION PLAN*

1. Facility Requirements
2. Equipment Requirements
3. Operations
  - a. Organizational structure
  - b. Operating expenses and capital requirements
  - c. Supplies/materials (key considerations)
  - d. Cost of goods sold
  - e. Operations schedule
4. Production Process and Capacity
5. Subcontracting (when applicable)

## *VI. COMPANY STRUCTURE*

1. How Company Will Be Structured
2. Business Advisors
  - a. Accountant
  - b. Lawyer
  - c. Banker
  - d. Insurance
  - e. Other specialists
3. Management Team

## *VII. THE FINANCIAL PLAN (from 3 to 5 years)*

1. Summary
2. Financial Statements
  - a. Income statement
  - b. Balance sheet
  - c. Cash flow statement
  - d. Operating budgets
3. Salaries of Principals (if not covered elsewhere)
4. Other Salary Schedules (if not covered elsewhere)
  - a. Salaried employees
  - b. Hourly employees

## *VIII. SOURCE OF FUNDS*

1. Initial capital
2. Initial working capital
3. Principal funding

## *VIII. LOCATION (if not covered elsewhere)*

1. Business Location
2. Location Costs

*IX. PERSONAL FINANCIAL STATEMENTS*

1. Principals

*X. BIOGRAPHIES OF THE PRINCIPALS*

*XI. CONCLUSION*

## COMPONENTS OF THE BUSINESS PLAN

### *I. EXECUTIVE SUMMARY*

The Executive Summary should be personalized to the investor, government agency, etc. and should contain:

Description of the Business - a brief mission statement and very specific purpose.

Marketing Strategy - image of business, who customers will be and how they will be attracted.

Production Process - method of getting product to completion.

Management Team - who will own the business and the management responsibilities they will have.

Objectives of the Team - one year's objectives as well as long term goals.

Financial Considerations - the amount of money or type of approval required and the purpose. In the case of a funding request, name the type of security that will be pledged. Include a summary of projected earnings.

The Executive Summary should tell the reader exactly what you want. All too often, the writer's request is buried deeper in the Business Plan. Make your request clearly and concisely.

### *II. PRODUCTS AND SERVICES*

In this section, tell your reader about your product and/or service by including the following:

Initial Products and Services - describe your products and/or services.

Proprietary Features - an assessment of the strengths and weaknesses of your products and/or services. Outline any patents, trade secrets and other technical advantages that your products and/or services have over similar products/services in the marketplace. Where applicable, what technologies are used to develop and manufacture your products and/or services.

Future Products and Services - that may evolve. Keep abreast of what is happening in your industry in the areas of new products/services and research and development through magazines, publications and associations.

### III. INDUSTRY

#### Industry Definition - What is the Industry Definition?

- Discuss the industry background and projections.
- Is your business involved in an industry that is growing, peaking or on a downward growth curve?
- What are the pricing strategies within the industry?
- What is the scope of the industry?
- What is the role of competition within the industry?

Market Definition - The marketing segment of the Business Plan is one of the most important parts. This area requires an in-depth study of the marketplace in which you will be selling your products and services. Know your market:

- To whom will you be selling your goods and services?
- Basically, who will be using your product?
- How large is the total market in terms of potential unit and dollar sales?
- From the total market, determine the target market (who you want to sell to).
  - The target market may be in a certain geographical area, and the product may consist of users of certain characteristics such as families, single parent families, particular age groups, etc.

The market study also includes determining if there is a demand or need for your product or service. This can be obtained by conducting surveys in person or by telephone of individuals and businesses, reading periodicals to obtain information on the direction of the industry and statistical information provided by Stats Canada on expenditures.

Once you have determined and identified the target market on which to focus your selling efforts, you need to determine what reasonable portion of the market you will be able to obtain. In other words, what number of potential customers will possibly purchase your product and how much will they purchase?

In determining your potential market share, consideration must be given to the competition as they too possibly share part of the market which you are entering.

#### Competition - Know your competition.

- List who they are (specific business names).
- List their products and services and what they charge.
- If possible, determine what percentage of the market share they may hold.

By knowing your competition, you will have a better idea of what portion of the market you may be able to obtain. You will have a guideline as to how to price your product and be able to determine market areas why may be untouched or saturated. Methods or ideas may originate as to how to provide a better product or service than the competition. Rely on your strengths and improve your weak points. Review your business and answer the following question, *why would someone buy from you and not the competition down the street? What do you offer that the others do not?*

Major Influences on the Business and Industry - What factors will affect the industry now and in the future? What local, national and international influences will alter the future of the industry?

#### IV. *MARKETING PLAN*

Marketing Overview - A broad picture of how your business will be perceived and where you fit into the market and the community.

Marketing Objectives - set one to four very specific, identifiable and realistic marketing goals.

Strategy - Promotional Plan, Advertising and Public Relations - By knowing the size of the market and the share which may be available to you, you are now able to project sales for the business. Projected sales become a target for the business. They become the basis upon which Proforma Financial Statements are developed. The development of a market strategy is the result of a meticulous market analysis. In the previous section, you identified the total market, your target market and your competition. Now you are ready to develop your strategy to get your product or service to the consumer in the most efficient manner.

The marketing strategy is made up of two main components:

1. Promotional Plan
2. Methods of Advertising

### **Promotional Plan**

The promotional plan deals with more than just advertising. It must also deal with the following considerations:

**Business image** is what people think about your product, service or store; therefore, positive, designed to attract your target audience and must be consistent. To be consistent, your everything you do affects your image. What image do you want your business to have? It should be advertising, staff, store location and layout, pricing, packaging, stationery and service must all reflect the desired image.

**Business location** depends upon the image you want to portray and the type of business that you're in. Location considerations include:

Manufacturing - does your location allow you to product and distribute product at maximum efficiency? Does your distribution system coordinate with market efforts?

Retailers - does your location give customers easy access to your store? Are you in a high traffic location? Do you depend more on location or advertising to attract customers? Does your business fit in well with the surrounding area and surrounding businesses? Are you in a growth area? Does your location have adequate services.

Service - does your location give your customer quick and easy access? Is your location well serviced?

**Promotional Plan Considerations** - who are your target markets? Which group of people should you concentrate on for sales? Will you use a "shot gun" or "rifle" approach to advertising?

For manufacturers, how should your products be packaged and distributed? For retailers, how can store layout and display contribute to marketing objectives? How can your business be positioned so that competition is minimized and your business strengths emphasized?

How much should be spent on marketing? Your marketing budget decision will be based upon:

- resources
- size of business
- type of business
- target markets
- marketing and business goals and objectives

Business could use the following methods to determine marketing budget:

Percent of Sales - The budget is based upon a percentage of past or projected sales. The exact percentage will vary from business to business. In retailing, for example, most stores spend between one and seven per cent of total sales.

Competition - Your budget should also be based upon what your competition is spending. Sometimes to find out what they are spending, industry averages may be used. This is not the best method of determining a budget as it is a defensive or reactive type of consideration.

Goals and Objectives - This budget is determined by the estimates of how much money is needed to achieve marketing goals and objectives. Budgeting should be determined by way of a total planning approach using the best combination of budgeting methods.

## Methods of Advertising

You must address your methods of advertising and have an advertising plan developed before starting or expanding your business.

Methods of advertising include:

- special events (celebrity visits, fashion shows, special sales events, etc.)
- demonstrations, exhibitions, trade shows
- coupons
- contests
- free samples
- special price offers and rebates
- give-aways (pens, calendars, etc.)
- prizes

Methods of advertising or advertising channels are listed and compared below:

Channel	The Market it Serves	Type of Audience	Which Business it Serves Best	Pros	Cons
Daily newspaper	usually a single community	general, but usually more men, older and more educated people	all retailers, some services	flexible timing; large audience	cannot pinpoint small specialized markets
Weekly newspaper	single communities	general	retailers & services whose market is within the community	good local coverage	small audience area
Magazines	varies from single to large centers to nationwide or special interest groups	varies from large general audience to small specialized groups - usually higher income people	businesses with well defined target markets such as restaurants, entertainment, specialty shops	good for special interest groups	can have limited audience, inflexible timing

Radio	size of area depends on size of station - usually one community & surrounding area	different groups depending on the programs offered by each station	businesses whose target markets are similar to station audiences, e.g. commuters, teens, housewives	good for pinpointing target markets; can reach a lot of people	must be used a lot and timed properly to get best results
TV	size of area depends on size of station or network - like radio	varies with time of day and type of program, but generally more younger people	products & services with wide appeal, not specialized businesses	most persuasive; best mass audience and large market coverage	expensive; complicated production factors
Billboards	several communities; one community or parts of a community	general, but especially auto drivers and passengers	entertainment, tourist attractions, brand names, well known businesses	highly visible; seen by most people	expensive; message must be kept short
Transit Posters	communities having public transport	transit passengers (interior posters) pedestrians and drivers (exterior posters)	businesses near transit routes and terminals; most consumer market businesses	repeated exposure; captive audience	somewhat limited audience and markets

In summary, you must have a well-developed plan and budget; then you must work your marketing strategy plan.

## How Will Sales Be Made?

**Pricing Policy** - Determine what price you will be charging for your goods and this will be based on several factors such as:

- input costs
- competition
- what the market will bear
- industry standards
- loan repayment
- damaged merchandise
- pricing takes into consideration total costs and includes a mark up for profits
- pricing **must** cover all costs of doing business

**Selling Policy** - Determine if sales will all be on a cash basis or will credit be extended to customers. Credit given has to be collected, and the longer the account is outstanding, the more difficult it is to collect. The extension of credit will depend on the type of product/service, the competition, norms of the industry and the customer himself. Selling policy may be flexible and provide discount incentives to promote cash sales and early payment on credit. Sales staff may have flexibility to negotiate selling price. A return policy may be required. Overall selling policy will be dependent upon the type of product, the customer and the competition.

**Distribution** - Determine the method of how you will get your product to the market place.

Methods may include:

- Direct Selling (sales staff)
- Brokers
- Established Retailers
- Your Own Retail Outlet
- Direct Mail

The method of distribution will depend on the type of product, the competition, time factor, associated costs, etc.

Review the pros and cons of the choices available. Choose the most effective method within your budget that will provide you with the best results in reaching the desired market place in order to maximize sales.

A combination of methods may be desirable to reach into the market place.

## Sources of Information

- Libraries - books, newspapers, journals
- Government Publications - Statistics Canada, Government Studies & Reports
- Marketing Firms
- Competition
- General Public - Surveys
- Test Marketing a Product
- Experts' Opinions
- Trade Shows
- Mail Order Catalogues

## *V. PRODUCTION PLAN*

### Facility Requirements

The following points must be addressed:

**Location** - Provide reasons for locating where you have. Include a location map, traffic counts (if available), traffic patterns, information on accessibility and brief description of other businesses in the immediate area. Are these businesses compatible to yours? Do they complement your type of business?

**Details** - should be provided according to the amount of property (land and buildings) required, site plan or floor layout and a detailed list of all costs associated with the development of the premises (land purchase, construction costs, renovations or leasehold expenses)

Please ensure that you contact all local authorities (Fire Marshall, Local or Regional Plan, Licensing and Building Inspection Departments) to assure that they authorize your plans, at least in principle, before seeking out cost estimates.

### Equipment Requirements

List of equipment now owned and to be purchased. Indicate cost of the equipment including installation charges. Indicate from whom the equipment will be purchased including details on warranties, delivery dates and special purchase arrangements with the supplier.

## Operations

### **Organizational Structure**

- Once you have determined the portion of the market that may be available to you and set a reasonable sales amount for the first year of operation, you will need to organize how the business will operate.
- A chain of command will be required.
- A sufficient number of employees will be required to ensure that sales are fulfilled.
- A job description of the employees' duties will be required to eliminate internal problems among employees and to ensure efficient use of labour.
- A salary and wage schedule will be required. Amounts are usually dictated by the market place; however, they can be tied to productivity.
- Ensure a method of quality control exists.

### **Operation Expenses and Capital Requirements**

Determine operational expenses and capital costs related to the start up and operation of your business. You will obtain this information during your investigation through suppliers, landlord, similar businesses, trade magazines, Statistics Canada, etc.

### **Supplies/Materials (key considerations)**

- List the necessary supplies and materials needed for the business.
- List your suppliers and the terms and conditions of purchasing from them (it may be cash and/or credit).
- Availability of supplies and materials may be a factor in choosing a supplier.
- Will they supply overnight, a week, a month? A good relationship with a reputable supplier is essential.
- Availability of supplies and materials will have an effect on how much must be kept on hand and when orders will have to be done.
- Your customers will be relying on you to ensure they have access to product also.
- Establishing an account with a back up supplier is advisable to ensure availability of supplies.

### **Cost of Goods Sold (know your cost of production)**

- Whether manufacturing a product or providing a service, you must fully understand all costs related to your product and service.
- In manufacturing, the cost is the cost of raw materials, component parts, supplies and labour. In merchandising, it is the cost of the product for resale and supplies. When you are providing a service, you must consider direct costs primarily related to labour.

- **Note:** Constantly revisit costs related to your product or service. Increased costs must be passed on to your customers in order for your business to maintain a constant profit margin.

### **Operations Schedule**

- To keep on top of activities, maintain a written time schedule for all orders. Time schedules would include the order, proposed delivery date, size of the order, etc.
- Your Business Plan should address these key elements and provide a schedule format for your use once the business has commenced.

### Production Process and Capacity

### Subcontracting

## *VI. COMPANY STRUCTURE*

### How Company Will Be Structured

#### **Background Information**

- History of the Business
- If this is a new business: state that it is new and describe what has led you to want to start this business.

#### **Legal Status of the Business**

- Proprietorship, Partnership, Limited Company
- List the names and addresses of the owner(s), and the percentage of the business each owns.

### Business Advisors

- List the banks or other financial institutions with which you have had financial dealings.
- List your accountant and lawyer with whom you are presently dealing.
- List past and present employers

### Management Team

For a new business and existing business “on the grow”, this is an important part of the Business Plan. Management is one of the most important elements of a successful business. Investors look first at the management of the company before considering other criteria such as profitability, etc.

This is the section of your Business Plan allows you to look at your strengths and weaknesses as they relate to the proposed business. Build upon your personal strengths and experience,

overcome your weaknesses by hiring the personnel to fill those weak areas or retain outside professionals to fill those weak spots.

This section of the Business Plan must include the following information:

**Organization of the Company** - An organizational chart is most useful, supported by a brief job description for each management position. (Note: management of a company if not restricted to the business owners).

The job description includes the objectives of the job, the work to be performed, responsibilities, working conditions and relationships to other jobs. As well, they should include job specifications, especially for the new businesses. Job specifications (i.e. a description of the qualifications required to fill the particular job) include experience, education, special skills and physical requirements.

**Brief Management Biographies** - of key personnel, including their ages, backgrounds in this type of business, etc.

### **Management Compensation**

## *VII. FINANCIAL PLAN*

Now that the product, market and operation of your business have been defined, you need to address the real backbone of the Business Plan---the Financial Plan

The Financial Plan that you will need to develop includes the following statements:

- the income statement
- the balance sheet
- the cash flow statement

The income statement and balance sheet are relatively simple and straight forward reports. They simply reflect the information that has been gathered through the other components of the business planning process.

The cash flow is most critical as an information tool for your business. It shows how much cash is needed to start up the business. It is a schedule of the money coming in to the business and expenses that need to be paid.

**Note:** If your business is already established, you must provide financial statements for the present and the preceding three years.

The financial plan should be supported with in-depth comments explaining extraordinary events from the past and supporting assumptions used to develop the Proforma Income Statement, Balance Sheet and Cash Flow.

Based on cash flow and income statements, detail amounts of money needed, sources that will be sued and security that will be offered.

### *VIII. SOURCES OF FINANCING FOR YOUR BUSINESS*

- Cash on hand
- RRSP (remember, you may have tax problems when cashing an RRSP)
- Life insurance policy
- Personal assets now owned (garage sales, sell extra car, equipment, etc.)
- Friends
- Relatives
- Suppliers, vendors (if buying existing business)
- Conventional lenders (banks, Credit Union, Treasury Branch)
- Small business lenders

### *IX. LOCATION (if not covered elsewhere)*

- Business Location
- Location Costs

### *X. BIOGRAPHIES OF PRINCIPALS*

### *XI. CONCLUSION*

Now that the body of the Business Plan has been completed and a Financial Plan developed, you must conclude your Business Plan with a summary of critical risks and assumptions.

Take a good hard look at your proposed business. What are the risks? What is the downside? What have you done or propose to do to overcome or reduce these risks?

And remember to be honest with yourself. The success or failure of your business will depend on your honesty and knowledge of the potential risks of your business.